

**OTTAWA CONSERVATION DISTRICT
OTTAWA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

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OTTAWA CONSERVATION DISTRICT

List of Principal Individuals

<u>Board Members</u>	<u>Position</u>
William Miller	Chairman
Paul Sachs	Vice-Chairman
Lester Langeland	Secretary/Treasurer
Jeffrey Hoekstra	Member
Geraldine Eadie	Member



Board of Directors
Ottawa Conservation District
Grand Haven, MI 49417

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities of the Ottawa Conservation District, as of and for the year ended September 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ottawa Conservation District's managements. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the managements, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Ottawa Conservation District, as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 4 and budgetary comparison information on page 17 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hendon & Slate, P.C.

Hendon & Slate, PC
Certified Public Accountants
February 10, 2009

OTTAWA CONSERVATION DISTRICT

Management's Discussion and Analysis
September 30, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide financial statements.

The District as a Whole

The District's net assets declined from the prior year balance with a decrease of \$36,616. Revenues increased \$17,028 or 4.72%. Of this, Miscellaneous Other Revenue increased \$13,000 and MAEAP increased \$1,000. Expenditures increased \$31,569 or 9.06%.

	<u>2008</u>	<u>2007</u>
Current Assets	\$ 195,548	\$ 232,164
Noncurrent Assets	1,071	3,432
Total Assets	<u>\$ 196,619</u>	<u>\$ 235,596</u>
Current Liabilities	\$ 22,082	\$ 58,614
Total Net Assets	<u>\$ 174,537</u>	<u>\$ 176,982</u>
	<u>Governmental Activities</u>	
Program Revenues	<u>2008</u>	<u>2007</u>
Operating Grants	\$ 330,467	\$ 318,580
Charges for Services	29,455	28,563
General Revenues		
Interest	4,786	7,510
Miscellaneous	<u>12,770</u>	<u>5,797</u>
Total Revenues	377,478	360,450
Program Expenses		
Operations	77,899	59,131
Groundwater	66,966	56,421
Forestry	50,638	53,330
MAEAP	49,909	50,548
CTAI	39,246	40,595
Gypsy Moth	71,835	69,352
Reforestation	21,070	16,013
Depreciation	<u>2,360</u>	<u>2,964</u>
Total Expenses	<u>379,923</u>	<u>348,354</u>
Change in Net Assets	<u>\$ (2,445)</u>	<u>\$ 12,096</u>

Governmental Activities

Revenues in general were down in the 2008 fiscal year mainly because of reductions in State Funding. Miscellaneous increased in 2008 due to additional charges for services of \$11,825.

The District's Funds

The District maintains only one fund, which is described in the footnotes to these financial statements. There are no component units for the District.

General Fund Budgetary Highlights

The District adopted a budget for the year ended September 30, 2008, in accordance with the guidance issued by the Michigan Department of Agriculture. This budget was not amended during the year and there were not any changes made to the estimates in the original budget. Overall expenditures were over budget by \$5,440.

Capital Asset and Debt Administration

The District adopted a capital asset policy with a threshold of \$5,000. The District did not capitalize any assets in 2008. There were no debt transactions.

Economic Factors and Next Year's Budget

The District adopted the 2008-09 budget with the expectation that the revenues and expenditures would be significantly lower than the previous year. State grants and contributions to local units are expected to decrease because one grant is not expected to be received by the District. The budget also reflects a decrease in funding sources, including from the State. The budget approved for the 2008-2009 fiscal year was a balanced budget and was adopted on the activity level. Although not reflected in the budget, the District is concerned about possible cut from State Funding for all Districts. The State has been reviewing the distributions being made by Districts on a regular basis. The Board continues to evaluate and update existing programs offered to the public based upon available funding sources.

Contacting the District's Management

This financial report is intended to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the District Administrator.

OTTAWA CONSERVATION DISTRICT

Government Wide Statement of Net Assets September 30, 2008

	Governmental <u>Activities</u>
ASSETS	
Current Assets	
Cash	\$ 159,203
Due from Other Units	34,359
Inventory	<u>1,986</u>
Total Current Assets	195,548
 Fixed Assets	
Equipment	16,430
Less Accumulated Depreciation	<u>(15,359)</u>
Total Fixed Assets	<u>1,071</u>
 Total Assets	<u><u>\$ 196,619</u></u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 1,780
Payroll & Sales Tax Liabilities	513
Deferred Revenue	<u>19,789</u>
Total Current Liabilities	22,082
 NET ASSETS	
Unrestricted	<u>174,537</u>
 Total Liabilities and Net Assets	<u><u>\$ 196,619</u></u>

Notes to the Financial Statements are an integral part of this Statement.

OTTAWA CONSERVATION DISTRICT

Government Wide Statement of Activities For the Year Ended September 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expenses)
		<u>Charges for</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	Revenue and Changes In Net Assets
<u>Primary Government</u>				<u>Governmental</u> <u>Activities</u>
Operations	\$ 96,968	\$ -	\$ 49,501	\$ (47,467)
County Cost Share	2,103	-	5,898	3,795
Groundwater Stewardship	45,794	-	50,446	4,652
Forestry Assistance	50,638	-	52,704	2,066
MAEAP Program	49,909	-	55,030	5,121
Gypsy Moth Program	71,835	-	74,888	3,053
CTAI	39,246		42,000	2,754
Reforestation	21,070	29,455	-	8,385
Total Depreciation	2,360	-	-	(2,360)
Total Primary Government	\$ 379,923	\$ 29,455	\$ 330,467	(20,001)
General Revenues				
Interest				4,786
Miscellaneous				12,770
Total General Revenues				17,556
Change in Net Assets				(2,445)
Net Assets - October 1, 2007				176,982
Net Assets - September 30, 2008				\$ 174,537

The Notes to the Financial Statements are an integral part of this Statement.

OTTAWA CONSERVATION DISTRICT

Governmental Fund Balance Sheet September 30, 2008

ASSETS

Cash	\$	159,203
Due from Other Governments		34,359
Inventory		<u>1,986</u>
Total Assets	\$	<u><u>195,548</u></u>

LIABILITIES

Accounts Payable	\$	1,780
Payroll & Sales Tax Liabilities		513
Deferred Revenue		<u>19,789</u>
Total Liabilities		22,082

FUND BALANCE

Unreserved		<u>173,466</u>
Total Liabilities and Fund Balance	\$	<u><u>195,548</u></u>

The Notes to the Financial Statements are an integral part of this statement.

OTTAWA CONSERVATION DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets For the Year Ended September 30, 2008

Total Governmental Fund Balances	\$	173,466
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Total net assets reported for governmental activities in the statement of net assets are different from the amount reported as total governmental funds fund balance because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Assets	16,430	
Governmental Accumulated Depreciation	(15,359)	
		<u>1,071</u>

Total Net Assets - Governmental Activities	\$	<u><u>174,537</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

OTTAWA CONSERVATION DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2008

REVENUES

MDA Operating Grant	\$	11,635
County Grants		15,898
Groundwater Stewardship Grant		56,344
Forestry Assistance Cost Share		12,000
Forestry Assistance Grant		40,704
MAEAP State Grant		27,530
MAEAP Federal Grant		27,500
Gypsy Moth Program		74,888
CTAI Grant		42,000
Reforestation Project		29,455
Interest		4,786
Miscellaneous		34,738
Total Revenues		<u>377,478</u>

EXPENDITURES

Administrative		77,819
County Cost Share		2,103
Groundwater Stewardship		45,794
Forestry Assistance		50,538
MAEAP		49,909
Gypsy Moth Program		71,835
Reforestation		21,070
CTAI Program		39,246
Miscellaneous		19,069
Capital Outlay		180
Total Expenditures		<u>377,563</u>

Excess Revenues Over (Under) Expenditures (85)

Fund Balance October 1, 2007 173,551

Fund Balance September 30, 2008 \$ 173,466

The Notes to the Financial Statements are an integral part of this statement.

OTTAWA CONSERVATION DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	(85)
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Amounts reported for governmental activities in the statement
of activities are different because:

The acquisition of capital assets are reported in the governmental
fund as expenditures. However, for governmental activities those
costs are shown in the statement of net assets and allocated over
their estimated useful lives as annual depreciation expenses in the
statement of activities:

Capital outlay reported in governmental fund statements

Capital outlay reported as expenses in statement of activities

The net effect of various miscellaneous transactions involving
capital assets (i.e., sales, trade-ins, and donations) is to
increase (decrease) assets.

Depreciation expense reported in the statement of activities	(2,360)
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Change in Net Assets - Governmental Activities	\$	<u>(2,445)</u>
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The Notes to the Financial Statements are an integral part of this statement.

OTTAWA CONSERVATION DISTRICT

Notes to the Financial Statements
September 30, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ottawa Conservation District (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Ottawa Conservation District:

A. Reporting Entity

The Ottawa Conservation District is governed by an elected five member board.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Notes to the Financial Statements (continued)

The District reports the following major governmental funds:

The *general fund* is the district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Grants Receivable - The Ottawa Conservation District receives grant revenues based upon a reimbursement plan. Thus, expenditures are incurred then remitted to the State for reimbursement. At September 30, 2008, \$20,408 was yet to be received.

Gypsy Moth Revenue - The Townships and Ottawa County are billed for the Gypsy Moth Program after the fiscal year end; however, the services have been performed in the current fiscal year. Typically these payments are not received within the normal 60 day period; however, the District does consider these current receivables and revenue. As of September 30, 2008, \$13,951 in billings were yet to be received.

Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	\$ -	\$ 19,789

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Based on past experience, uncollectible receivables are \$0.

Notes to the Financial Statements (continued)

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Computer Equipment	3 Years
Office Equipment	5 Years
Vehicles	7 Years

Compensated Absences (Vacation and Sick Leave) - It is the District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the District does not pay any amounts unless employees retire from the District. All vacation pay is accrued when incurred in the government-wide financial statements.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

accepted accounting principles. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary data reflected in the financial statements.

The District begins its budgeting process in July of each year. At the July board meeting the administrator/executive director should provide a report to the board containing information required by the MDA Accounting Manual. The budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain public comments.

Prior to September 30, the budget is legally adopted.

The budget shown in these financial statements are as last amended through September 30, 2008.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

Notes to the Financial Statements (continued)

In the required supplemental data section of the financial statements, the District's actual expenditures and budgeted expenditures have been shown on a functional basis. The approved budget of the District was adopted on a line item level. The District does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - based on the functional level as reported, the District incurred expenditures that exceeded budgeted amounts as follows:

	Budget <u>Amount</u>	Actual <u>Expenditures</u>	<u>Excess Over</u> <u>Budget</u>
Forestry Assistance	49,056	50,538	1,482
Reforestation	14,000	21,070	7,070
Capital Outlay	125	180	55
Misc Expense	-	19,069	19,069

In total the District's expenditures were under budget by \$27,676.

The Miscellaneous Expense account is comprised of the District's payroll tax expenditures. These costs have historically been disbursed among each individual program according to that program's related payroll cost. The District's budget for 2008 was created in this manner. The actual expenditures were recorded in total as a single line item in order to comply with the Michigan Department of Agriculture. The District did not amend the budget to reflect this change.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the District's Board of Directors in accordance with Public Act 196 of 1997 has authorized investments in bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation; or in a community foundation under PA 136 of 1921 as amended, but not the remainder of the State statutory authority as listed above.

Notes to the Financial Statements (continued)

The District's deposits are in accordance with statutory authority. All deposits are held at Chase Bank and carried at cost. The District holds the accounts in its own name. The funds of the District are insured under FDIC regulations as set forth in section 330.8(2). As of September 30, 2008 \$54,419 was uninsured.

At September 30, 2007, the deposits of the District consisted of the following:

<u>Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Checking	\$ (3,206)	\$ 20,518
Savings	<u>154,419</u>	<u>154,419</u>
Total Deposits	<u>\$ 151,213</u>	<u>\$ 174,937</u>

The District holds \$138 in a petty cash fund which is used to make change and small purchases, and has \$7,852 of undeposited monies.

NOTE E ACCOUNTS RECEIVABLE

At September 30, 2008 accounts receivable consisted of the following:

	<u>Accounts Receivable</u>	<u>Other Governments</u>	<u>Total</u>
Due from State - Grants	\$ -	\$ 20,408	\$ 20,408
Due from County - Gypsy	-	<u>13,951</u>	<u>13,951</u>
Total	<u>\$ -</u>	<u>\$ 34,359</u>	<u>\$ 34,359</u>

NOTE F CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Office Equipment	\$ 16,430	\$ -	\$ -	\$ 16,430
Less Accumulated Depreciation for				
Office Equipment	<u>(12,999)</u>	<u>(2,360)</u>	<u>-</u>	<u>(15,359)</u>
Capital Assets - Net of Depreciation	<u>\$ 3,431</u>	<u>\$ (2,360)</u>	<u>\$ -</u>	<u>\$ 1,071</u>

Notes to the Financial Statements (continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

Unallocated	<u>\$ 2,360</u>
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Total Governmental Activities	<u><u>\$ 2,360</u></u>
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NOTE G RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

OTTAWA CONSERVATION DISTRICT

Budgetary Comparison Schedule for the General Fund September 30, 2008

	Budgeted Amounts			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u>
Beginning of Year Fund Balance	\$ 167,068	\$ 167,068	\$ 173,551	\$ 6,483
Resources (Inflows)				
MDA Operating Grant	10,605	10,605	11,635	1,030
County Grants	16,525	16,525	15,898	(627)
Groundwater Stewardship Grant	66,919	66,919	56,344	(10,575)
Forestry Assistance Cost Share	12,000	12,000	12,000	-
Forestry Assistance Grant	39,727	39,727	40,704	977
MAEAP Grant	55,000	55,000	55,030	30
Gypsy Moth Program	128,796	128,796	74,888	(53,908)
CTAI Program	60,000	60,000	42,000	(18,000)
Reforestation Project	24,000	24,000	29,455	5,455
Interest	7,500	7,500	4,786	(2,714)
Miscellaneous	3,595	3,595	34,738	31,143
Amounts Available for Appropriation	591,735	591,735	551,029	(40,706)
Charges to Appropriations (Outflows)				
Administrative	94,789	94,789	77,819	16,970
County Cost Share	6,525	6,525	2,103	4,422
Groundwater Stewardship	71,139	71,139	45,794	25,345
Forestry Assistance	49,056	49,056	50,538	(1,482)
MAEAP	50,355	50,355	49,909	446
Gypsy Moth Program	128,796	128,796	71,835	56,961
Reforestation	14,000	14,000	21,070	(7,070)
CTAI Program	60,000	60,000	39,246	20,754
Miscellaneous	-	-	19,069	(19,069)
Capital Outlay	125	125	180	(55)
Total Charges to Appropriations	474,785	474,785	377,563	(5,440)
Budgetary Fund Balance Sept. 30, 2008	\$ 116,950	\$ 116,950	\$ 173,466	\$ (46,146)



Board Members
Ottawa Conservation District
Grand Haven, MI 49417

In planning and performing our audit of the financial statements of Ottawa Conservation District as of and for the year ended September 30, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered Ottawa Conservation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Ottawa Conservation District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Segregation of Duties

Internal controls are designed to safeguard assets and help protect or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Organization's accounting staff prohibits complete adherence to this concept, the following practices could be implemented to improve existing internal control without impairing efficiency.

We understand that currently the bank statements and canceled checks are being received by a board member. To strengthen this monitoring process, we also

DRAFT

recommend that these items be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.

The organization already requires two signatures on all checks written. In addition to this we would suggest that the person signing the check should initial the invoice to indicate review and approval of the payment.

In addition, we recommend that when the board reviews the items to be paid (or approve payments made) that the sequence of checks be reconciled to verify that all checks are approved.

Finally, we recommend that a board member review and approve all journal entries to determine accuracy and validity based upon the supporting documentation. This would further limit the risk of fraud or error within the accounting system.

Address Preparation of Financial Statements

As is common in small organizations, the District's accounting department currently does not perform the following functions:

Prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District is unable to, and has not, established internal controls over the preparation of financial statements.

Prepare schedules of property and equipment and record depreciation on a monthly basis. Currently, in the course of performing the audit, depreciation schedules are updated for activity during the year, and depreciation is calculated and recorded.

As part of the audit, management has requested us to prepare a draft of the District's financial statements, including the related notes to the financial statements. Management then performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, management might establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures, possibly including reviewing and approving a completed disclosure checklist we would provide to you or by completing a disclosure checklist.

Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.

Apply analytical procedures to the draft financial statements.

Perform other procedures as considered necessary by management.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
February 10, 2009



February 10, 2009

To the board of directors
Ottawa Conservation District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ottawa Conservation District for the year ended September 30, 2008, and have issued our report thereon dated February 10, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 6, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 6, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ottawa Conservation District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation expense on fixed assets is based on the straight-line method over the useful life of the assets.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Prior Audit Findings – As noted in 2006 audit findings, the District maintained a balance in the un-deposited funds account throughout the year.

The District has a good process of authorizing the monthly bank reconciliations and we are pleased to note that all funds are recorded at the time of receipt. However, the process of depositing funds could be improved. The funds should be deposited into the bank shortly after being received. The process of holding and batching deposits offers up the risk of misappropriation or fraud, from both internal and external sources. Since the District currently uses the undeposited funds account to record transactions, we recommend that a board member review the balance being held in this account. Each month the undeposited funds account should have a zero balance. A positive balance would indicate that there are funds being held or accumulated.

Budgets – The District incurred actual expenditures in excess of appropriations for forestry assistance, reforestation, capital outlay, and miscellaneous expenditures. See note B in the financial statements.

The Budget Act (Public Act 2 of 1968 as amended) requires that all local units of government in Michigan adopt balanced budgets, to establish responsibilities and define the procedures for the preparation, adoption and maintenance of the budget and to require certain information for the budget process. Section 17 of the Budget Act requires the legislative body to amend the budget as soon as a deviation is apparent. Amendments to the approved budget (general appropriations act) must not cause estimated total expenditures, including an accrued deficit (negative fund balance), to exceed total estimated revenues, including an available surplus (fund balance).

The District has a very good process of establishing yearly budgetary amounts on a line item basis; however, these reports are not used to properly amend the general appropriations act. The original approved budget (the general appropriations act) is maintained by the District on the Budget Worksheets as well as entered into Quick Books and is provided to the Board monthly along with the line item detail. However, the Board does not approve or make amendments to the budget, periodically during the year, or at year end. We believe that a periodic review and amendment of the budget by the board would eliminate the excess of appropriations in most cases.

This information is intended solely for the use of board of directors and management of Ottawa Conservation District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hendon & Slate, P.C.

Hendon & Slate, PC